City of Dallas

Power & Light Mixed-Income Redevelopment Project

Economic Development Committee
June 3, 2024

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[Interim] Director
Office of Economic Development

Overview

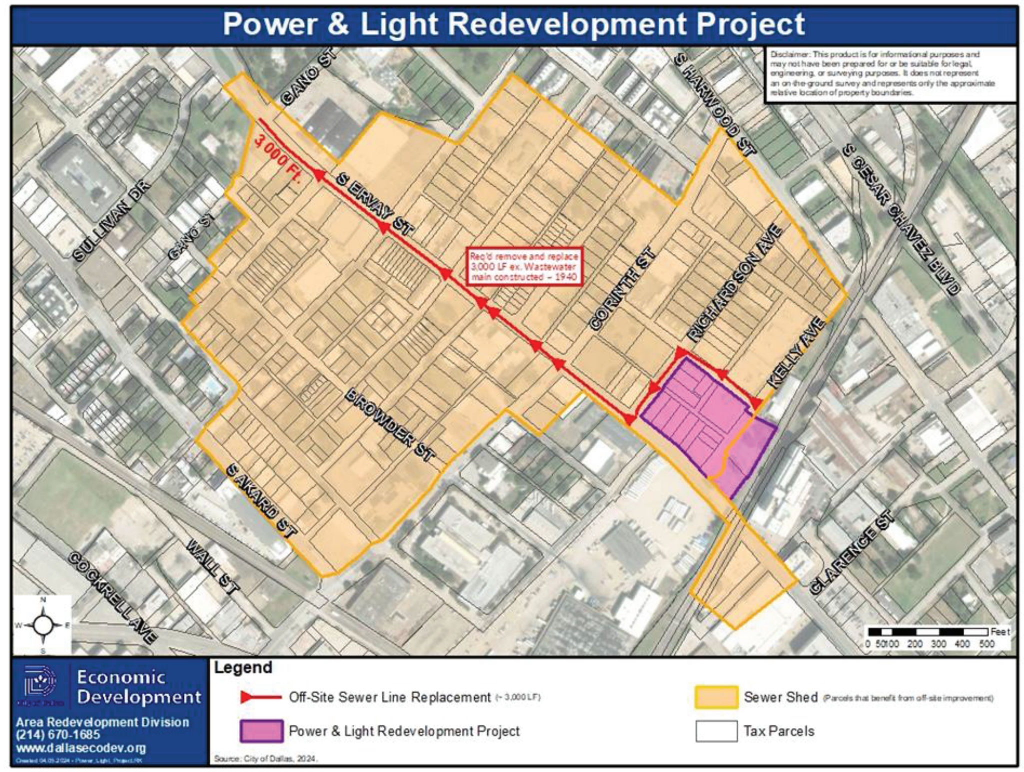
- Background
- Proposed Project
- Staff Recommendation
- Next Step
- Appendix

Background: The Cedars Project

- September 13, 2023: City Council authorized the Dallas Public Finance Corporation (Resolution No. 23-1221) to:
  - acquire, develop, and own **The Cedars**, a mixed-income, multi-family development
  - enter into a 75-year lease agreement with Savoy Equity Partners, LLC or its affiliate for development of The Cedars
- The Cedars Project includes two components:
  - **Marcus @ Cedars**: new construction of a 4-story multi-family building with 76 units
  - **Power & Light @ Cedars**: rehabilitation of an existing historic building integrated with new construction of 5-story multi-family building with 310 units
- Mixed-Income Housing:
  - 40% of total units at 80% of Area Median Income ("AMI")
  - 10% of units at 60% AMI
  - 50% of units at market rate

Background: Off-Site Wastewater Infrastructure

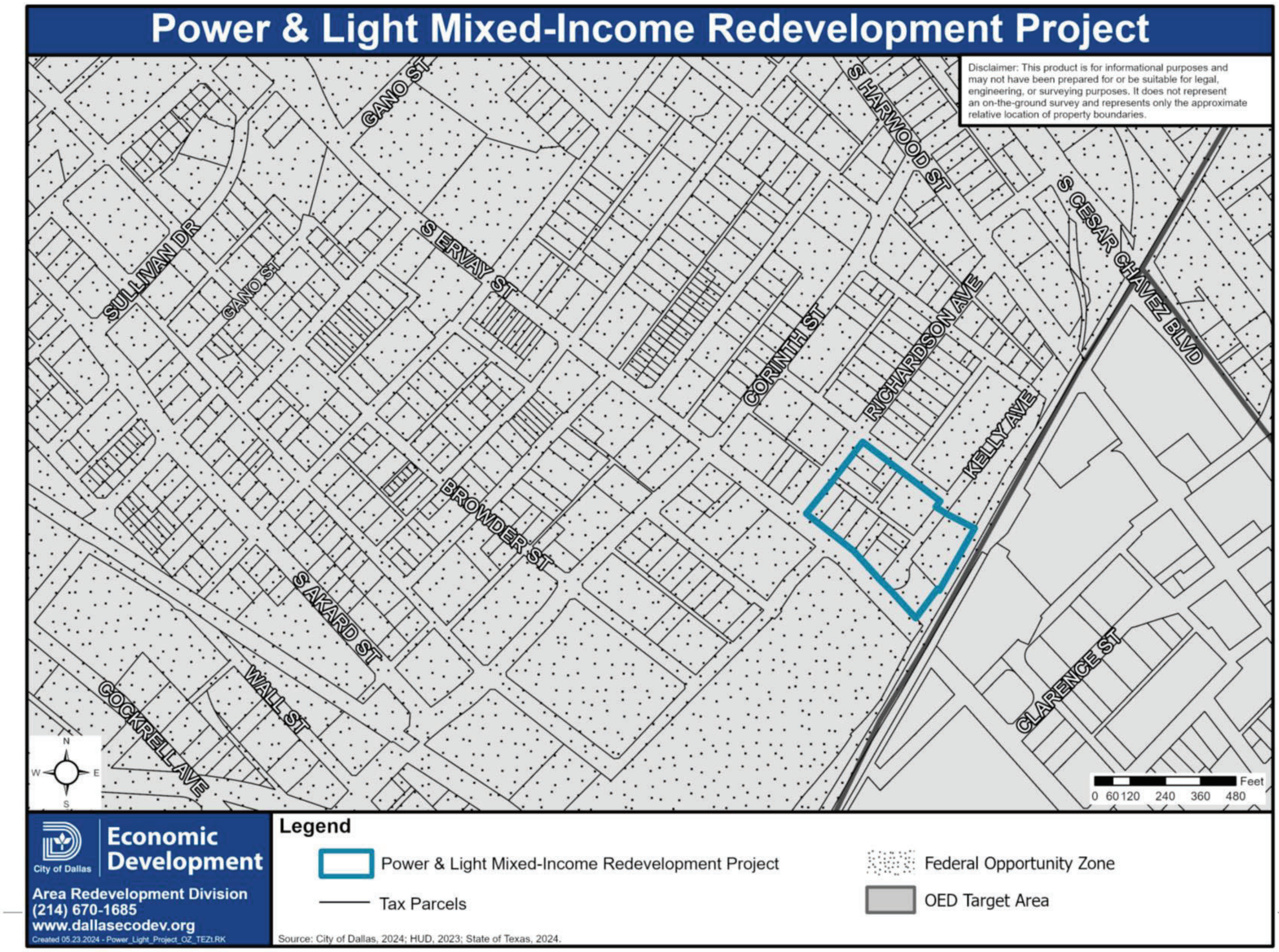
- After City Council approval, during plan review by the City, Developer was informed that the existing wastewater infrastructure in Ervay Street cannot support the Power and Light portion of the Cedars Project
  - Existing wastewater lines are between 70 and 100+ years old
  - Existing 8" and 10" wastewater line in Ervay St from Kelly Ave to Gano St lacks the capacity needed for the Power & Light @ Cedars Project
  - Marcus @ Cedars can be developed without wastewater infrastructure upgrade
- Developer is required to remove and replace the old and undersized wastewater line with 3,000 linear feet of new wastewater line ranging from 10" to 21" in size (red line shown in map)
- New off-site wastewater line will provide the capacity necessary to support the Power & Light Project as well as future development activity within the 60-acre sewershed (area shown on map in light orange)
- The unanticipated off-site infrastructure improvement expense rendered the Power & Light Project **financially infeasible**, even with the PFC tax exemption



Proposed Project: Location

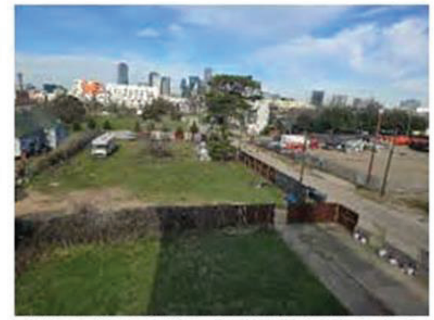
- Development site is approximately 3.77 acres and is comprised of:
  - 13 contiguous and privately-owned parcels
  - 2 defunct alleys, and
  - 1 right-of-way (Kelly Avenue)
- Developer will replat all properties into one parcel
- Separate City Council approval of an abandonment application for City-owned right-of-way is required
- Zoning: PD 317 (Cedars Area Special Purpose District)
- Development site is in City Council District 2
- Development site is in a Target Area per City's Economic Development Incentive Policy

Proposed Project: Location Map



Proposed Project: Existing Conditions

Adjacent Lots & View Facing S. Ervay St.

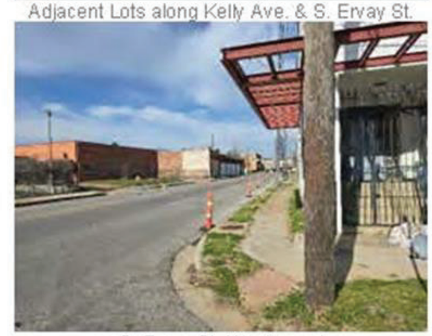


Adjacent Lots & View Facing Richardson Ave.

Adjacent Lots along Kelly Ave. & S. Ervay St

Adjacent Lots along Kelly Ave. & S. Ervay St.

Richardson Ave.-Southbound



S. Ervay St.-Westbound

Proposed Project: Summary

- **Project Developer**: Low Ervay, LLC, dba Savoy Equity Partners (collectively “Developer”), a Texas domestic limited liability company, or an affiliate, will design, fund, and construct the Power & Light Mixed-Income Redevelopment Project (“Project”).
- **Project Summary**: Developer submitted an incentive application to the Office of Economic Development for a City incentive specifically to close the Project’s financing gap created by the off-site wastewater infrastructure requirement. The Project will include:
  - rehabilitation of the historic Power & Light building at 1723 Kelly Avenue into a tenant amenity center
  - removal and replacement of an old and undersized wastewater line located in Ervay Street generally from Kelly Avenue to Gano Street with approximately 3,000 linear feet of new wastewater line ranging from 10” to 21” in size
  - new ground-up construction of a 5-story, 310-unit mixed-income multi-family building with the following affordability:
    - 40% of the units reserved for households earning less than 80% AMI
    - 10% of the units reserved for households earning less than 60% AMI
    - 50% of the units at market rate
  - an interior courtyard with a pool and other amenities
  - approximately 415 on-site parking spaces (approximately 390 structured parking spaces and 25 on-site surface parking spaces).
- **Estimated Total Project Cost**: $83,573,278

Project Unit Mix					
	60% AMI	80% AMI	Market	Total	
Studio	4	14	17	35	11%
1Bd 1Ba	22	83	104	209	67%
2Bd 2Ba	6	27	33	66	21%
Totals	**32**	**124**	**154**	**310**	**100%**

Proposed Project: Renderings

Power & Light Historic Building at Cedars

SAVOY EQUITY PARTNERS

Power & Light at Cedars | Dallas, TX

SAVOY EQUITY PARTNERS

Proposed Project: Sources and Uses

Project Budget (Uses)

Uses of Funds	Amount	
Land Acquisition	$9,093,165	11%
Site Improvements	$1,940,000	2%
Off-site Improvements	$3,000,000	4%
Construction (inc. Conting., Permits)	$58,522,731	70%
Professional Fees	$2,218,373	3%
Construction Finance	$7,223,319	9%
Soft Costs	$1,629,690	2%
Total	**$83,573,278**	**100%**

Project Funding (Sources)

Sources of Funds	Amount	
Equity	$32,253,983	39%
Berkadia HUD 221(d)(4) Loan	$48,650,800	58%
Dallas Water Utilities Participation	$813,500	1%
Proposed City Grant Incentive	$1,854,995	2%
Total	**$83,573,278**	**100%**

Staff Recommendation: Grant Incentive

- **Staff Recommendation**: **Chapter 380 economic development grant agreement** with Low Ervay, LLC and/or its affiliates in an amount **not to exceed $1,854,995** to facilitate the Power & Light Mixed-Income Redevelopment Project and assist with the extraordinary cost of the required off-site wastewater infrastructure improvement.
  - Grant amount paid to Developer shall be limited to the design cost and hard construction cost of the off-site wastewater improvement actually incurred by Developer, less the actual participation by Dallas Water Utilities in the qualifying hard construction cost of the off-site wastewater improvement pursuant to and in accordance with Chapter 49 of Dallas City Code.
  - Grant shall be payable in one lump-sum upon completion and acceptance of the Project, including acceptance by the City of the off-site wastewater infrastructure improvement.

- **Grant Incentive Source**: tax-exempt bond proceeds from the City's 2012 general obligation bond program (Proposition 3: Economic Development/Housing) and shall be payable from one or more bond funds in accordance with the City's policies

Note: 2012 Proposition 3 remaining uncommitted balance $1,539,335

Staff Recommendation: Grant Conditions

- Developer shall **close construction financing for the Project prior to or contemporaneously with the City's execution of the Grant Agreement.**
- Developer shall **provide sufficient and satisfactory evidence, in the Director's sole discretion, of binding commitments of all capital sources necessary to deliver the Project.** Developer shall **execute the Grant Agreement by December 31, 2025.**
- Developer shall **receive final approval of The Cedars project (inclusive of the Power & Light Project) by the Dallas PFC Board prior to the City's execution of the Grant Agreement.**
- Developer shall **transfer the property that will be developed as part of The Cedars project (inclusive of the Power & Light Project parcel) to the Dallas PFC and execute the Regulatory Agreement and Declaration of Restrictive Covenants ("Regulatory Agreement") and ground lease with the Dallas PFC prior to the City's execution of the Grant Agreement.**
- Developer shall **record the executed Regulatory Agreement and Memorandum of Ground Lease in the Official Real Property Records of Dallas County and submit a copy of the filed and stamped document to OED staff prior to the City's execution of the Grant Agreement.**

Staff Recommendation: Grant Conditions

- The Project shall include the following **required project components** :
  - **substantial rehabilitation of the entire existing Power & Light Building to house a minimum of 2,000 square feet of tenant amenity space;**
  - **new ground-up construction of a 5-story residential building with a minimum size of 275,000 gross square feet (inclusive of the parking garage) and a minimum of 400 on-site parking spaces;**
  - **on-site improvements (e.g. grading; utilities; paving; drainage; lighting; landscaping; signage; etc.) necessary to complete the Project; and**
  - **off-site infrastructure improvements necessary to complete the Project, including required removal and replacement of an existing undersized off-site wastewater line located in Ervay Street generally from Kelly Avenue to Gano Street with approximately 3,000 linear feet of new wastewater line ranging from 10” to 21’’ in size.**
- Developer shall **obtain a building permit from the City by December 31, 2025**.
- Developer shall **cause the construction of the required project components described above to be substantially completed by December 31, 2028**, as evidenced by certificate(s) of occupancy, letter(s) of acceptance, certificate(s) of substantial completion, and/or similar documentation issued by the City

Staff Recommendation: Grant Conditions

- Developer shall **invest (or cause to be invested) and provide documentation evidencing a minimum of $69,000,000** in acquisition costs and real property improvements, including the design, engineering and construction of on-site and off-site improvements and building improvements, including furniture, fixture and equipment costs associated with the Project by December 31, 2028.
- The project shall include a **minimum of 300 residential units, of which a minimum of 40% of the units shall be set aside and leased solely to those households earning a maximum of 80% of the AMI and a minimum of 10% of the units shall be set aside and leased solely to those households earning a maximum of 60% of AMI for a minimum of 15 years**.
- Developer shall **complete an Affirmative Fair Housing Marketing Plan** and submit the plan to the Fair Housing division within the City's Office of Equity and Inclusion for approval. Developer shall submit a copy of the approved plan to the Director within 30 days of approval and market the residential units in the Project pursuant to the approved plan.
- In accordance with Section 20-4.1(b) of the Dallas City Code, Developer shall **make best efforts to lease up to ten percent (10%) of the Project's residential units to voucher holders during the 15-year period from the date of Project's substantial completion**.

Staff Recommendation: Grant Conditions

- Developer shall **make a good faith effort to comply with a goal of 40% participation by certified Minority/Women-owned Business Enterprises for all hard construction expenditures (i.e. public and private improvements) for the Project** and meet all process and reporting requirements.
- The **proposed management group for the Project shall be submitted at least three (3) months prior to Project's substantial completion for review by Director**.
- Developer shall **execute a 20-year Operating and Maintenance Agreement for all non-standard public improvements** prior to December 31, 2028.
- Developer shall **submit to the Director quarterly status reports** for ongoing work on the Project.
- Until the Project has passed final building inspection and all required paperwork documenting substantial completion has been submitted to the Office of Economic Development, the **Director may authorize one (1) extension of the Project's material deadlines by up to twelve (12) months**.

Next Step

June 12, 2024: City Council

Appendix: Underwriting

- Developer's incentive application requested $3,000,000
- Grow America (formerly National Development Council), under contract with the City, conducted independent underwriting of the incentive application
- Conclusions of independent underwriting:
  - **Development team**: Highly qualified; experienced
  - **Financial capacity**: adequate debt and equity financing information was provided by Developer, including equity from a federally authorized Opportunity Zone fund organized by the Developer
  - **Debt capacity of Project**: senior loan is maximized at $48,650,800
  - **Cost reasonableness of Project**: Project costs are reasonable overall; land acquisition costs are at the higher end of the range of value for the neighborhood
  - **Rationale for incentive based on Returns**: Projected equity returns would be below market without City grant incentive (i.e. no undue enrichment)

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